

DG 05-149

CONCORD STEAM CORPORATION

2005/2006 Cost of Energy Rate

Order Approving the Cost of Energy Rate

O R D E R N O. 24,538

October 31, 2005

APPEARANCES: Sarah B. Knowlton, Esq., of McLane, Graf, Raulerson and Middleton, P.A., for Concord Steam Corporation; Amy Ignatius, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 15, 2005, Concord Steam Corporation (Concord Steam), a public utility supplying steam service to approximately 120 commercial and institutional customers and one residential customer in Concord, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) revisions to its tariff providing for its Cost of Energy (COE) for the period November 1, 2005 through October 31, 2006. The COE rate proposed in the filing was \$11.95 per Mlb (1,000 pounds of steam), compared to the current COE rate of \$10.88 per Mlb. Concord Steam's filing was accompanied by the pre-filed testimony and supporting attachments of Peter G. Bloomfield, President of Concord Steam.

The Commission issued an Order of Notice on September 19, 2005, scheduling a technical session for October 4, 2005 and a hearing for October 11, 2005. Concord Steam informed customers of the proposed rate change by direct mail and by publishing a copy of the Order of Notice in the *Concord Monitor* on September 22, 2005.

At the hearing, which was conducted by Hearings Examiner Donald M. Kreis, pursuant to RSA 363:17, Concord Steam proposed a revised COE rate of \$11.91 per Mlb. The

increase over the 2004-2005 winter rate of \$10.88 per Mlb is due to the higher price of wood supply as a result of increased fuel costs to transport wood to Concord¹ and certain adjustments to its forecasting urged by Commission Staff (Staff). Concord Steam also filed a proposed tariff page 11 reflecting a new COE rate of \$11.91 per Mlb. Mr. Kreis, on October 19, 2005, submitted a Report of Hearings Examiner which recommended approval of Concord Steam's revised filing.

II. POSITIONS OF THE PARTIES AND STAFF

A. Concord Steam Corporation

Concord Steam President Peter G. Bloomfield addressed the following issues: 1) energy supply and purchasing policies; 2) calculation of the proposed COE rate and reconciliation of the prior period's energy revenues and costs; 3) customer impact; and 4) a benefit/cost analysis of Concord Steam's cogeneration facility.

1. Energy Purchasing Policies

Concord Steam resumed burning wood in two of its boilers in January, 2004 and continues to rely heavily on wood as a fuel source. The fuel mix for the 2005/2006 winter will be approximately 70% wood, with waste oil and number 6 oil making up the remaining 30%. Two of the boilers are fueled exclusively with wood; the remaining two, used as peaking units, are capable of being fueled with oil, waste oil and natural gas. Conversion of the remaining two boilers would not be cost effective, according to Mr. Bloomfield, for units that are only used for peaking purposes. Given the current and anticipated cost of natural gas, Concord Steam expects not to use natural gas this winter. Mr. Bloomfield testified that even though the cost of wood has increased from \$20 to \$24 per ton, Concord Steam will continue to achieve significant savings in

¹ Of the total \$24 per ton price of wood, Mr. Bloomfield testified approximately \$2 was for the trees; \$7 was for labor and chipping and the rest was for transport.

the coming winter period by fueling the boilers with wood rather than oil or natural gas, given the even greater increase in those fuels. He explained that Concord Steam has either pre-purchased or entered into wood supply contracts at an average delivered cost of \$24 per ton for the entire supply of wood needed for the winter season. He has also pre-purchased a significant percentage of the oil anticipated for the winter and has commitments for additional supply as needed through the winter. At the hearing, he noted that the futures prices for oil are roughly \$55 per barrel of virgin oil and \$38 per barrel of waste oil; wood at \$24 per ton therefore is very attractive.²

Mr. Bloomfield testified that Concord Steam has an air permit that allows it to burn wood and that the heavy concentration of wood as a fuel source will not result in emissions violations. He testified that although using more wood results in a slight increase in particulate emissions, this is more than offset by the reduction in sulfur dioxide and nitrogen oxide emissions as a result of using less oil.

2. Calculation of the COE and Reconciliation from Prior Period

The proposed COE rate of \$11.91 per Mlb is calculated by adding the anticipated under collection of \$137,703 from the 2004/2005 time period to the estimated cost of energy for the upcoming 2005/2006 time period of \$1,993,563 for a total of \$2,131,266 to be recovered during the upcoming period. This total amount is then divided by the anticipated weather normalized steam sales of 178,904 Mlb to arrive at the proposed COE rate of \$11.91 per Mlb. See Exhibit 2.

² A *ton of wood* is approximately equivalent to a *barrel of oil* in net steam energy out of the boiler. Bloomfield Testimony, p. 8.

3. Customer Impact

Concord Steam's proposed COE rate for November 2005 through October 2006 is approximately 8.6 percent higher than the actual weighted average rate in effect from the prior COE rate. Concord Steam proposes that the COE rate take effect November 1, 2005, on a service-rendered basis. It is authorized to adjust the rate monthly, within a range of \$9.53 to \$14.29 per Mlb, without further Commission action. The other two rate components for each of its customer classes, a usage rate and a meter rate, remain unchanged.

4. Other issues

Mr. Bloomfield testified to efforts to bring Concord Hospital, once a Concord Steam customer, back on the system. Adding its load would increase sales by approximately 15 to 20%. More importantly, Concord Hospital would be a customer that would require a steady supply of steam year round, thus improving Concord Steam's load profile.

Mr. Bloomfield also reported on the status of the lease with the State of New Hampshire on which its generation plant is located. The lease is due to expire in 2010, and the State has not yet determined if it will renew the lease or use the land for other purposes. The State has retained a consultant to consider the options, including whether the State should purchase electricity from Concord Steam's co-generation³; he anticipates a report in the next twelve months. Until the report is completed and the lease issue is resolved, Mr. Bloomfield testified, it will be difficult to make other decisions regarding sales of its excess electricity.

B. Staff

Staff did not present testimony but recommended the Commission approve the revised COE rate of \$11.91 per Mlb. Staff supported the changes to certain reporting and accounting in Concord Steam's calculations. At the hearing, Staff questioned Concord Steam

³ Currently all excess electricity is sold into the spot market through ISO-NE.

about its energy supply, purchasing policies, and the economic and environmental consequences of relying so heavily on wood as a fuel source.

Staff also noted that Concord Steam's losses have increased in recent years and queried Mr. Bloomfield as to the reasons and efforts to reduce losses. Losses now account for about 25% of steam. He stated that there are efforts to reduce the losses, and would keep Staff apprised of any developments.

Staff also explored Mr. Bloomfield's understanding of the lease negotiations with the State, the potential for sale of excess electricity to the State and the possibility of Concord Hospital coming back on the system. Finally, Staff questioned Mr. Bloomfield on the benefit/cost analysis of the co-generation operation, a report on which had been included in this filing at the Commission's request, although not directly related to the COE rate. The benefit "dropped" from prior calculations in part due to an error in fuel costs and, at Staff's urging, inclusion of certain expenses to more accurately reflect the true costs of the co-generation operation. The benefit/cost ratio is now 1.47. Staff urged Concord Steam to meet with the Staff if that ratio were to drop further.

III. COMMISSION ANALYSIS

We note that Concord Steam's operations are consistent with the goal of encouraging the use of wood as an energy source when economical, as set forth in Order No. 24,147. Its utilization of wood fuel produces financial benefits for customers in the form of lower and more stable rates, as wood costs are lower than the projected costs of alternative energy sources and the price of wood has traditionally been less volatile than that of oil and gas. In addition, the fuel is sustainable and indigenous to New Hampshire. Given the positive rate impacts resulting from these changes, the conversion to wood-fired boilers was a sound

investment. After reviewing the record, we find that the proposed COE rate of \$11.91 per Mlb will result in a just and reasonable rate pursuant to RSA 378:7.

We urge Concord Steam to study ways to reduce losses on its system and to continue to evaluate the benefits and costs of the co-generation operations. We also urge Concord Steam to work with the State to explore the viability of selling excess electricity. Concord Steam is a unique facility, as the only steam generator in the State, and the only utility that generates electricity incidental to its steam generation. It is currently situated on State property and interconnected to many State buildings for heating purposes. Rather than mandate reports on the issues facing Concord Steam, we instruct the company to keep Staff apprised of developments on all of these issues, as events unfold.

Based upon the foregoing, it is hereby

ORDERED, that Concord Steam's proposed 2005/2006 COE rate of \$11.91 per Mlb for the period November 1, 2005 through October 31, 2006, effective on a service-rendered basis, is APPROVED; and it is

FURTHER ORDERED, that Concord Steam may, pursuant to *Concord Steam Corporation*, 86 NH PUC 699 (2001), and without further Commission action, adjust the approved COE rate of \$11.91 per Mlb upward or downward monthly based on Concord Steam's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not exceed twenty percent (20%) of the approved revised COE rate; and it is

FURTHER ORDERED, that Concord Steam shall provide the Commission with its monthly calculation of the projected over or under calculation, along with the resulting revised COE rate for the subsequent month, not less than five (5) business days prior to the first

day of the subsequent month, and shall include a revised tariff if Concord Steam elects to adjust the COE rate; and it is

FURTHER ORDERED, that interest will not be charged on the monthly over or under collection pursuant to *Concord Steam Corporation*, 86 NH PUC 699 (2001); and it is

FURTHER ORDERED, that Concord Steam shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary